

## **FACT SHEET LOCAL COST POLICY**

When Ex-Im Bank is providing loan or guarantee support for U.S. exports for a foreign project, it may also provide up to 15 percent of the U.S. contract price in local cost support, so long as such costs are included in the U.S. supplier's scope of work. The criteria used by Ex-Im Bank's Board of Directors in determining whether local cost will be provided include:

### **MANDATORY CRITERIA**

(at least one aspect must pertain)

1. whether the case is facing confirmed officially supported local cost support;
2. whether private market financing of local cost is known to be difficult to obtain;

### **RELEVANT CRITERIA**

3. whether the U.S. exporter is part of an international consortium in which all members are offering local cost support;
4. whether the U.S. supplier's share of the total project is "significant;"
5. whether other competitive aspects of the transaction (price, quality, and financing) are equal, making local cost support a critical competitive consideration.

As a general rule, a transaction must meet at least one of the first two criteria listed above to be considered for local cost support.<sup>1</sup> The last three criteria are less significant, but may have a bearing on the decision to extend local cost support.

To be considered for local cost support, Ex-Im Bank requires either confirmed proof of the availability of official export credit support for local costs, or that domestic sources of funding are so scarce that the necessary level of financing for local cost would not be forthcoming without Ex-Im Bank support. That is, there must be proof that the availability of local cost support is a critical factor to the U.S. exporter's chances of winning the export contract.

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<sup>1</sup>The only exceptions to this policy pertain to the Engineering Multiplier Program, exports of environmentally beneficial capital goods and services, exports of Y2K computer equipment and services, and transactions done under the Project Finance Program, for which local cost support is available automatically.

The ultimate decision as to whether to extend local cost support is subject to budgetary and other discretionary considerations as determined by Ex-Im Bank's management.

If Ex-Im Bank decides to provide local cost support, then the local costs must be:

1. included in the U.S. supplier's scope of supply to the buyer.
2. set forth in the contract between the buyer and the U.S. supplier.
3. invoiced by the U.S. supplier from the U.S., and paid by the buyer to the U.S. supplier.

#### **EXAMPLE OF EX-IM BANK LOCAL COST SUPPORT** (Long-Term Transaction)

The following is an example of how Ex-Im Bank structures local cost financial support in conjunction with support for U.S. exports:

1. Assume that the exporter's total contract price is \$25,000,000.
2. Assume that the local cost included in the exporter's contract is \$5,000,000.

The Ex-Im Bank support will consist of two tranches. Tranche A addresses the exporter's U.S. contract price (the contract net of local costs) and Tranche B addresses the local cost portion of the contract only.

A typical representation of the contract breakdown and structure of Ex-Im Bank support follows:

#### **TRANCHE A -- U.S. CONTRACT PRICE**

U.S. contract price	\$20,000,000
Eligible foreign content	2,000,000
U.S. content	18,000,000
<b>Amount of U.S. contract supported by Ex-Im Bank</b>	<b>17,000,000*</b>
Cash payment (15%)	3,000,000

\* Ex-Im Bank supports 85 percent of the U.S. contract price or 100 percent of U.S. content, whichever is less.

#### **TRANCHE B -- LOCAL COSTS**

Local cost element of contract price	\$5,000,000
<b>Amount of local cost supported by Ex-Im Bank</b>	<b>3,000,000**</b>
Cash payment	None

\*\* Local cost support is limited to 15 percent of the Tranche A U.S. contract price.

#### **MORE INFORMATION**

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